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# Corruption in Egypt

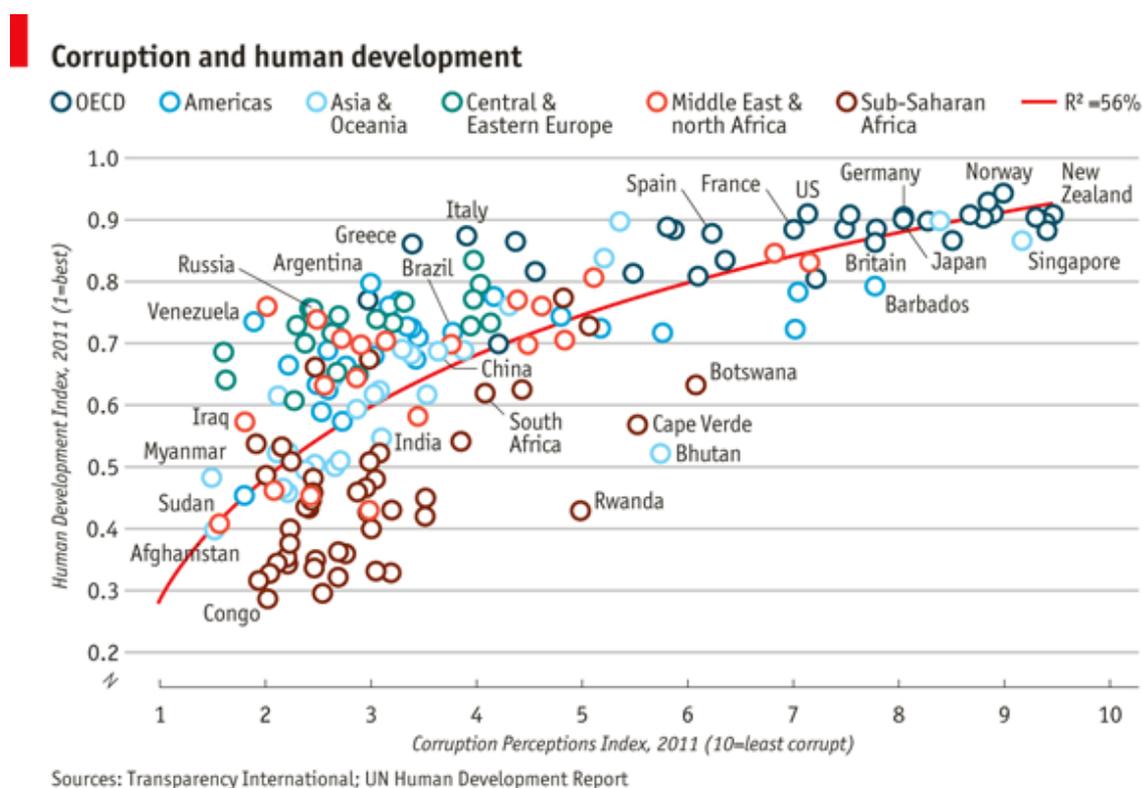
Andrew Puddephatt, March 2012

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# 1. Introduction

Corruption is one of the major problems facing societies around the world. Corruption is generally understood to comprise the abuse of power for private gain<sup>1</sup>, and something that imposes considerable costs upon society's that it afflicts. There is a particular impact upon economic development. If data taken from Transparency International's annual Corruption Perceptions Index is compared to the UN's Human Development Index which combines health, wealth and education to assess the overall level of development, there's a significant correlation, though the correlation does not establish whether corruption causes poverty or is a function of poverty<sup>2</sup>.



While it is impossible to accurately assess the true scale of corruption some figures estimate that it costs US\$ 1 trillion annually<sup>3</sup>.

<sup>1</sup> Variations on this can be found in OECD, *Glossary of Statistical Terms: Corruption*, [online] <http://stats.oecd.org/glossary/detail.asp?ID=4773>; or Transparency International, *Frequently asked questions about corruption*, [online] [http://www.transparency.org/news\\_room/faq/corruption\\_faq](http://www.transparency.org/news_room/faq/corruption_faq)

<sup>2</sup> The Economist, 2/12/2012. "Corrosive corruption: A correlation between corruption and development", in *The Economist* [online] <http://www.economist.com/blogs/dailychart/2011/12/corruption-and-development>

<sup>3</sup> Kaufmann, D., *Six Questions on the Cost of Corruption with World Bank Institute Global Governance Director Daniel Kaufmann*, World Bank, [online] <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190295~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

While corruption may represent a loss of productive resources to the economy it can also be seen as a form of rent seeking – and by adding a cost to transactions this creates an economic drag on the economy. This economic drag can take three major forms.

- i. It adds to the cost of investment – one study showed that corruption turned an investment of 5 per cent of GDP into GDP growth of 0.5 per cent - in other words, it reduced impact of investment by a factor of 20<sup>4</sup>.
- ii. By evading the formal economy it causes a loss of tax revenues that can be distributed to those in need.
- iii. Finally, in corruption prone societies, public officials will tend to favour government expenditure that offers the possibility of corruption rather than that which is socially beneficial. International studies have shown that corruption distorts the composition of public expenditure and leads to allocations in favour of less-productive investment projects and against nonwage operations and maintenance expenditures, such as books and medicines, which reduce the quality and productivity of existing infrastructure. One study showed that an increase in corruption by one unit (on a scale of zero to ten) lowers the ratio of public spending on education by 0.2 percentage points of GDP<sup>5</sup>. The reason for this result is that education programs are less prone to rent seeking. Another study showed that a high level of corruption has adverse consequences for a country's child and infant mortality rates, per cent of low-birthweight babies in total births, and dropout rates in primary schools. For example, an increase in corruption by one unit (on a scale of 0 to 10) raises the child mortality rate on average by 1.1 to 2.7 deaths per 1,000 live births – that's an increase in child mortality of 250 per cent<sup>6</sup>.

Of course, corruption is difficult to measure because it consists of hidden, typically illegal transactions; the converse of corruption, institutional integrity, may be easier to identify, despite gaps between formal structure and informal reality. Since corruption can typically not be directly measured, corruption indices or scores depend on surveys of perceptions of experts or of those directly or indirectly involved in the processes being surveyed.

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<sup>4</sup> Transparency International, *Corruption Data*, [online] <http://www.transparency.org.uk/corruption-data>

<sup>5</sup> Abed, G.T. and S. Gupta, 2004. *The Economics of Corruption: An Overview*, [online] <http://rbidocs.rbi.org.in/rdocs/content/pdfs/73239.pdf>

<sup>6</sup> *ibid*

## 2. Mapping corruption in Egypt

Egypt is one of the largest countries in the Middle East with an estimated population of just over 78 million and a GDP of US\$ 497.8 billion. The official unemployment rate is 9 per cent and official inflation rate (CPI) is 11.7 per cent<sup>7</sup>. There is however, widespread scepticism about the reliability of these figures. Generally in Egypt the quality of data is very poor, a function of the fact that data gathering is the monopoly of a state body, the Central Agency for Public Mobilisation and Statistics (CAPMAS), run by military officers, and operating in great secrecy.

The government does not appear to have carried out any overall assessment of corruption in Egypt or mandated an experienced institution to do so. In the absence of data we have to rely upon perception surveys carried out internationally – such as that of Transparency International or internal institutions such as Ahram Center for Political and Strategic Studies. While it is understandable that illegal activity would be badly documented, the absence of any real data and the reliance upon rumour and suggestion is worrying when trying to make a realistic assessment of the scale and extent of the problem (see below). To supplement this we interviewed a number of senior figures from government, business and civil society to ascertain their views and perspectives. A list of interviewees can be found in Appendix I.

Britain's *Guardian* newspaper<sup>8</sup> also reported that Mubarak and his family might be worth up to US\$ 70 billion due to corruption, kickbacks and legitimate business activities. The money was said to be spread out in various bank accounts at home and abroad, including Switzerland and Britain, and also invested in foreign property. The newspaper admitted, however, that some of the information regarding the family's wealth might be ten years old.

With the situation constantly changing, it is difficult to accurately describe the current landscape in relation to corruption. But, prior to the revolution observers agreed that corruption in Egypt was pervasive and that the use of *wasta* ('mediation' or 'influence' in Arabic) and facilitation payments were essential for doing business. The country will still face major challenges in combating both grand and petty corruption. In 2007, the government admitted that corruption is a serious problem and former Prime Minister Ahmed Nazif expressed his dedication to combating bribery, as reported by Transparency International Focus on Egypt<sup>9</sup>. Yet, so far, the dedication to combating corruption does not seem to be paying off. The US Department of State 2010 report notes that the government of Egypt did not consistently and effectively implement anti-corruption laws

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<sup>7</sup> Index of Economic Freedom, 2012. *Egypt*, [online] <http://www.heritage.org/index/country/egypt>

<sup>8</sup> Inman, P. 4/02/2011. "Mubarak family fortune could reach \$70bn, says expert", in *The Guardian*, [online] <http://www.guardian.co.uk/world/2011/feb/04/hosni-mubarak-family-fortune>

<sup>9</sup> Transparency International, *Focus on Egypt*, [online] [http://www.transparency.org/regional\\_pages/africa\\_middle\\_east/current\\_projects/mabda/focus\\_countries/egypt](http://www.transparency.org/regional_pages/africa_middle_east/current_projects/mabda/focus_countries/egypt)

and the media routinely report on low-level corruption<sup>10</sup>. The report further states that anti-corruption agencies are not effective in their fight against corruption.

A number of initiatives to combat corruption have been launched by the government in recent years, such as the establishment of the National Committee to Combat Corruption in 2008 and the Transparency and Integrity Committee, set up within the Ministry of State for Administrative Development in 2007 with the aim of diminishing corruption in the public sector. However, it was a widely held perception that former President Mubarak controlled all existing anti-corruption initiatives and agencies, and that they served as tools for Mubarak's personal political agenda. This explains why corruption scandals involving the sale of public companies at under-valuated prices to affiliates of Mubarak have had few consequences for the parties involved. Furthermore, it seems that in cases where action has been taken against high-ranking officials involved in corruption, the officials in question had already fallen out of the government's favour. Accountability of the government and Parliament is generally weak, despite the fact that there are regulations to govern conflict of interest and asset disclosure for members of government and the head of state - these have proven to be largely ineffective. Global Integrity Report 2010<sup>11</sup> presents several examples of high-level politicians engaging in business relations with the state or fraud related to asset disclosure forms. More than half of the business executives surveyed by the Transparency International Bribe Payers Index 2008<sup>12</sup> distrust the government's efforts to fight corruption, perceiving them to be 'ineffective' or 'very ineffective', while about one-third perceive them to be 'effective' or 'very effective'. Egyptian citizens surveyed by the CIPE & Ahram Center for Political and Strategic Studies Egypt National Corruption Survey 2009<sup>13</sup> are also sceptical of the effectiveness of governmental anti-corruption institutions. Only 17 per cent of the citizens surveyed stated that monitoring agencies play a principle role in combating corruption, while 29 per cent mentioned religious clergy as the principal institution in the fight against corruption.

## 2.1. Legal position

In Egypt, bribery and corruption are dealt with primarily under the Egyptian Penal Code, which addresses bribery in both the public and private sectors. Egypt ratified the UN Convention against Corruption in 2005, but is not party to the OECD Convention on

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<sup>10</sup> U.S. Department of State, 2010. *2010 Country Reports on Human Rights Practices: Egypt*, [online] <http://www.state.gov/j/drl/rls/hrrpt/2010/nea/154460.htm>

<sup>11</sup> Global Integrity, 2010. *Global Integrity Report: Egypt - 2010*, [online] <http://www.globalintegrity.org/report/Egypt/2010>

<sup>12</sup> Transparency International, *2008 Bribe Payers Index*, [online] [http://www.transparency.org/news\\_room/in\\_focus/2008/bpi\\_2008](http://www.transparency.org/news_room/in_focus/2008/bpi_2008)

<sup>13</sup> CIPE and Al-Ahram Centre for Political and Strategic Studies, 2010. *Egyptian Citizens' Perceptions on Transparency and Corruption: 2009 National Public Opinion Survey*, [online] [http://www.cipe.org/sites/default/files/publication-docs/2009%20Egypt%20National%20Survey%20Report%20EN\\_0.pdf](http://www.cipe.org/sites/default/files/publication-docs/2009%20Egypt%20National%20Survey%20Report%20EN_0.pdf)

Combating Bribery of Foreign Public Officials in International Business Transactions or the African Union Convention on Preventing and Combating Corruption. Anti-bribery provisions in Egypt are contained primarily in the Egyptian Penal Code, which contains stringent criminal sanctions applicable to bribery of a government employee for the purpose of the performance (or lack of performance) of his or her duties. Less severe penalties apply for bribery of a private employee.

Egypt does not have legislation that explicitly prohibits the bribery of foreign government officials. Legislation in Egypt does not extend to criminal acts committed abroad, except in the event that an Egyptian citizen commits an act abroad, which constitutes a crime both in that country and in Egypt. Egyptians who commit crimes related to bribery outside of Egypt may be subject to the penal sanctions relating to bribery crimes under the Egyptian Penal Code upon return to Egypt, unless he or she has undergone trial for that offense in the other jurisdiction.

Several Egyptian laws contain provisions applicable in the context of corruption and bribery. The main offenses are outlined in the Egyptian Penal Code, first passed in 1937 and amended subsequently. Articles 103 to 125 deal with bribery, embezzlement of public funds, and abuse of position and authority. These provisions include making it an offence for a public employee to request, or accept for him/herself or others, a gratuity or promise for the purpose of performing his professional duties or for refraining from performing a duty. It is an offence to request or accept rewards of any kind or for a public employee to perform or refrain from performing a professional duty as a result of any personal requests, recommendations, connections, or undue influence.

Recipients, intermediaries and providers of bribes are equally liable, but providers and intermediaries can be exempted from punishment if they inform the authorities of the offense or confess to it.

Article 109 provides that anyone who offers a bribe to a public employee even if not accepted, is guilty of a bribery offense, and it is an offence for anyone to accept or offer to be an intermediate in a bribe, even if the act does not extend beyond the offer or acceptance.

Public employees can be sentenced to terms of imprisonment of between three and fifteen years for bribery offences.

In 2007, the Egyptian government established several institutions to combat corruption. The Minister of State for Administrative Development set up the Transparency and Integrity Committee (TIC) to study and recommend means and mechanisms of enhancing transparency, accountability, and the fight against corruption at central and local government levels. The Ministry of Investment in turn established a Transparency Unit, supported by the UNDP, whose task is to improve the investment climate through legislative

amendments that strengthen freedom of information and transparency, raise public awareness and stakeholder engagement, and build capacity and knowledge management.

Egypt has also joined a number of international initiatives and projects to combat corruption. They include the MENA-OECD Task Force on Anti-Bribery, the OECD Good Governance for Development in Arab Countries Initiative, the Arab Anti-Corruption and Integrity Network (ACINET), and the UNDP-POGAR project to support the Ministry of Investment in the fight against corruption.

Egypt is also a signatory to the UN Convention against corruption (UNCAC, 2003). UNCAC is the first legally binding international anti-corruption instrument. It obliges States to implement a wide and detailed range of anti-corruption measures affecting their laws, institutions and practices. These measures aim to promote the prevention, criminalisation and law enforcement, international cooperation, asset recovery, technical assistance and information exchange, and mechanisms for implementation.

The UNCAC was adopted by the United Nations General Assembly in October 2003 and signed by 140 countries. As of 13 December 2011, the convention had been ratified, accepted, approved or acceded to by 158 countries (which became thus States Parties to the convention) as well as the EU and applies to most of the world population.

The preventive measures set out in the Convention cover both the public and private sectors. Key requirements include:

- The establishment of anti-corruption bodies;
- Enhanced transparency in the financing of election campaigns and political parties.
- Anti-corruption bodies should implement the anti-corruption policies, disseminate knowledge and must be independent, adequately resourced and have properly trained staff;
- States are also obliged to ensure that their public services are subject to safeguards that promote efficiency, transparency and recruitment based on merit;
- Public servants should be bound by codes of conduct, requirements for financial and other disclosures, and appropriate disciplinary measures;
- It requires measures to prevent money laundering;
- Transparency and accountability in matters of public finance must also be promoted,
- Specific requirements are established for the prevention of corruption, in the particularly critical areas of the public sector, such as the judiciary and public procurement;
- Since the combating of corruption also depends on cooperation between the State and society, the UNCAC places particular emphasis on the involvement of civil society and on the general reporting process through which the public administration reports to the people;

- The requirements made for the public sector also apply to the private sector – it too is expected to adopt transparent procedures and codes of conduct.

In addition, at the international level, there is an African Union Convention on Preventing and Combating Corruption. It aims to promote mechanisms to fight corruption in the public and private sectors, to facilitate cooperation among states parties, and to coordinate the policies and legislation relevant to corruption. The Convention's scope is broad and covers active and passive bribery, influence peddling, illicit enrichment, concealment of proceeds derived from corrupt acts. Its requirements are extensive and appear to be binding. It is not yet in force.

In summary then, there are adequate laws against corruption, international treaties have been ratified, anti-corruption bodies established. Notwithstanding all of this, corruption is still perceived to be a major problem in Egypt. Though the evidence is usually anecdotal and based on perceptions, the weight is considerable.

## 2.2. Public perception

While there are adequate protections in law against bribery and corruption, there are widespread public perceptions that bribery and corruption is still a feature of Egyptian life.

In 2010, Transparency International's Corruption Perceptions Index report<sup>14</sup> assessed Egypt with a CPI score of 3.1, based on perceptions of the degree of corruption from business people and country analysts, with 10 being very clean and 0 being highly corrupt. Egypt ranked 98th out of the 178 countries included in the report. This low score implies a high level of corruption in Egypt.

Surveys of Egyptian public opinion are more nuanced. A 2009 survey of public opinion sought to identify who had direct experience of corruption, and found that just 14 per cent of the urban population and 7 per cent of the rural population had such experiences.<sup>15</sup> When asked whether in the last two years, they had to pay money or give gifts in order to

- Obtain a license to engage in commercial activity;
- Avoid getting a traffic ticket or pay a fine by the traffic police;
- Avoid paying a fine or receive a penalty by the utilities police;
- Issue a driver's or automobile license;
- Issue a construction or demolition license;
- Reduce the amount of taxes you should pay;
- Enrol your child in certain school.

<sup>14</sup> Transparency International, 2010. *Corruption Perceptions Index 2010 Results*, [online] [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2010/results](http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results)

<sup>15</sup> CIPE, 2010. *Egyptian Citizens' Perceptions on Transparency and Corruption*

Between two and four per cent said yes which implies that low level transactional corruption is not so common (despite public perceptions to the contrary).

By contrast, 42 per cent of small business owners surveyed in CIPE's 2009 survey of 797 small and medium enterprises (SMEs) indicated that they had been obliged to offer illegal payments or gifts to obtain their business licenses. In addition 29 per cent had to pay bribes during the course of the operation of their business.<sup>16</sup>

When asked about the reasons for these payments, it was surprising that a full 90 per cent of those who said they had paid bribes regarded it as something normal, 'something everybody does'. Many were obliged to make these payments with 56 per cent of those surveyed stating that the civil servant requested a bribe directly. 70 per cent indicated they paid bribes to receive expedited service. This suggests that delaying transactions is a means for civil servants to persuade citizens to make these illegal payments. In addition, 27 per cent mentioned they made illegal payments so that the civil servant would process the transaction despite missing or improperly filled-out paperwork.<sup>17</sup>

However, only a small percentage of respondents' perceptions of corruption are based on direct experience – overall ten per cent indicated that they have paid bribes. Most Egyptians' opinions about corruption are shaped by rumours, discussions among family and friends or from stories in the media, of which satellite television channels are the most influential.

Businesses have long complained about corruption in Egypt and the hazards of doing business in such a climate. A survey by Enterprise Surveys<sup>18</sup>, however, showed that corruption, though serious, was not the major concern for companies.

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<sup>16</sup> CIPE and Al-Ahram Centre for Political and Strategic Studies, 2009. *Business Environment for Small and Medium-Sized Enterprises (SME) in Egypt and SMEs' Interaction with Government Agencies: 2009 Survey on Corruption*, [online] [http://www.cipe.org/sites/default/files/publication-docs/2009%20Egypt%20SME%20Survey%20Report%20EN\\_0.pdf](http://www.cipe.org/sites/default/files/publication-docs/2009%20Egypt%20SME%20Survey%20Report%20EN_0.pdf)

<sup>17</sup> *ibid*

<sup>18</sup> Enterprise Surveys, 2008. *Egypt, Arab Rep.*, [online] <http://www.enterprisesurveys.org/Data/ExploreEconomies/2008/egypt#corruption>

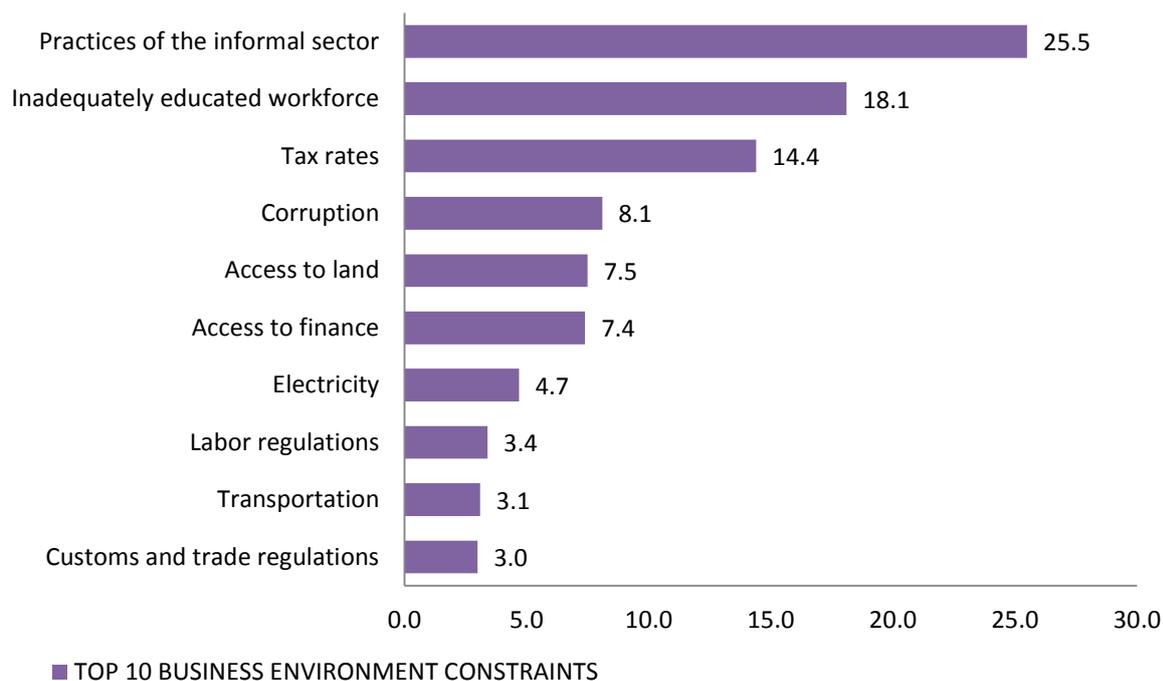


Figure 1 – TOP 10 business environment constraints in Egypt in 2008. After being presented with a list of 15 business environment obstacles, business owners and top managers in 1,530 firms were asked to choose the biggest obstacle to their business. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

### 2.3. The scale and extent of corruption

A recent Global Financial Integrity report claimed that crime and corruption cost Egypt approximately US\$ 6 billion per year and US\$ 57.2 billion total, from 2000-2008. Much of this money, the report authors' note, was driven out by personal tax evasion, in addition to corruption and crime<sup>19</sup>.

Egypt appears to be confronted with both grand and petty corruption. Corporate surveys testify that corruption is a major obstacle to business operations and growth in Egypt. International organisations, too, have persistently pointed to the seriousness of the problem.<sup>20</sup>

*“In Egypt, non-government perception surveys report that corruption is widespread and that it is part of daily life... Corruption allegations are frequent in the media and people often speak of the practice as affecting all parts of society. The phenomenon results in part from and builds on the fact that a very large part of the Egyptian economy is informal (around 35 per cent by some estimates).”<sup>21</sup>*

<sup>19</sup> Task Force for Financial Integrity & Economic Development, 2011. *Egypt Lost \$57.2 Billion From 2000-2008*, [online] <http://www.financialtaskforce.org/2011/01/26/egypt-lost-57-2-billion-from-2000-2008/>

<sup>20</sup> OECD, 2010. *Business Climate Development Strategy, Egypt: Policies for Better Business Regulation*, [online] <http://www.oecd.org/dataoecd/49/20/46341268.pdf>

<sup>21</sup> *ibid*

### 3. Patterns of corruption in Egypt<sup>22</sup>

On a cautionary note there is no accurate data about corruption. While there is a widespread assumption about levels of corruption – particularly among the leaders of the Mubarak regime there is little concrete evidence or reliable data to depend upon. For this report we conducted a number of interviews with senior Egyptian figures from the worlds of government, business and universities. We explored their perceptions of corruption under a number of headings. All emphasised the lack of reliable data. Ahmed Ghoneim, Professor of Economics at Cairo University, said:

*“Corruption is high, but there is no concrete data. It is something you can feel and it is spoken about. With the issues about how subsidies are manipulated and nepotism you have anecdotal evidence, but no significant reliable data to depend on.”*

#### 3.1. Government interference in the economy

One area that provides obvious opportunities for corruption is when there is extensive government interference in the economy – through imposing tariffs, paying wages and providing subsidies on basic goods. The local observers we spoke to did not feel that the payment of government wages offers opportunities for corruption. They did identify subsidies as a potential problem however, given that subsidies are made based on a commodity, rather than being based on the user, which creates corruption opportunities for the suppliers of those goods. Some of these subsidies are extremely significant. For example fuel subsidies, which from a total given in subsidies of LE 136 billion, comprises LE 95 billion goes for fuel will therefore provide many opportunities for money to go astray. Without accurate data and audit systems however, it is difficult to estimate the true scale of the problem in this field. A cautionary note was sounded by Ghada Moussa, Secretary General of the Transparency and Integrity Committee, a body that oversees administrative corruption under the umbrella of the Ministry of Administrative Development: *“There is mismanagement in subsidies, and lack of transparency in intermediaries. But I cannot state that there is corruption.”*

#### 3.2. Facilitation fees

A second area is the payment of facilitation fees as a condition of signing contracts. One expert has said that Egypt requires foreign investors give a local business partner a 20 per cent stake in start-up ventures which gives regime figures a source of profit with little risk<sup>23</sup>. This underlines the difficulty of ascertaining the exact nature of such transactions which are hidden even from senior officials. Samir Radwan, a former finance minister explained:

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<sup>22</sup> The following section is drawn from interviews held in Cairo.

<sup>23</sup> Inman, 2011. "Mubarak family fortune could reach \$70bn, says expert", in *The Guardian*

*“I’m out of my depth on the extent of this [problem].. We knew that it took place. We heard about the Mercedes Company paying something, but we don’t have reliable and concrete information about it. It takes place for sure, from time to time you get a case blowing up and usually the investigation comes from abroad. The Mercedes case didn’t come from Egypt. It was not long before the fall of Mubarak in 2010. They kept saying they would reveal the names, and these names were very high up in the system, not in the government, but who were they we don’t know until now.”*

Osama Farid, Chief Executive at Project Engineering Company said:

*“[It is] known to professional people in the economic field, and business people, that business opportunities are difficult for those who are not well connected. Facilitation [is] needed for them to get the license.”*

Business surveys indicate about a quarter of companies expect to or have paid facilitation fees of some kind<sup>24</sup>.

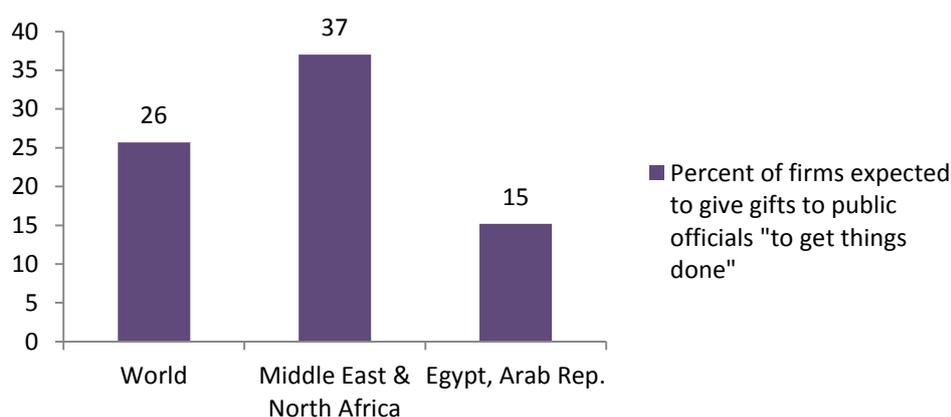


Figure 2 – Percentage of firms expected to give gifts to public officials “to get things done”. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

### 3.3. Public accounting systems

All of this is compounded by a lack of transparency in public accounting – many public bodies have a special budget line allowing them to spend funds without any transparency. As Samir Radwan said:

*“When I was Minister of Finance, I planned to change the whole system of budgeting and reporting. Because when you report, you report that these were the allocations and they were spent and or not spent. But, what is the efficacy? Was it spent properly? There is no system of monitoring and evaluation of public spending whether investment or otherwise that I know of.”*

<sup>24</sup> Enterprise Surveys, 2008. *Egypt, Arab Rep.*

There is also a lack of proper government accounting systems. There is systematic of monitoring and evaluating public spending, including investment. Egypt has a Central Auditing Organisation (CAO), but generally it does not publish its reports - they are sent directly to the president, head of parliament and prime minister who decide what to do with the information. Ghada Moussa claims that the major source of corruption lies in the:

*“... mis-pricing of products, raw material and land. Most corruption cases trend with natural resources and land resources. Land worth LE 10 million was sold for LE 2 million, and the LE 8 million was taken in another way. It was an oligarchic state, so that the political regime intervened with the business sector for personal interests.”*

However, since the downfall of President Mubarak and under the last head of the CAO, their report was published for the first time. It is clear that the CAO faces structural difficulties. They sometimes fail to get the data they request from government either because the ministry doesn't want to collaborate or the government doesn't have the data. Abdelfattah El-Gibaly, head of the Economic Unit at the Ahrum Centre for Political and Strategic Studies argued:

*“With any joint venture between government and private sector, if capital is more than 25 per cent from government, there should be CAO regulation and oversight. The problem with the CAO is that their reports are not made transparent.”*

Ghada Moussa also called for greater transparency in budget making:

*“Transparency in budgeting process needs to be improved. We can now access the Egyptian budget on net, no other Arab country puts their budget on the net, but it needs to be completed to appear in a comprehensive way.”*

### **3.4. Privatisation and the sale of state assets**

The sale of state-owned property and privatisation is widely assumed to have been a major cause of corruption. Part of the problem here is the difficulty in accurately valuing state owned assets; land use for industries will not have the same price for land in construction and housing. This is an area that has caused much speculation among Egyptians though some observers believe there is a lot of exaggeration compounded by the lack of accurate information. Abdelfattah El-Gibaly commented:

*“All people speak about corruption in the privatisation process based on the evaluation process of public assets. But when you evaluate assets to sell, there is a big difference in terms of the value of the asset. Some opinion said that it is corruption, true in some cases but not all the privatisation process.”*

### 3.5. Government licenses

Government licenses are needed to conduct different aspects of business, for example import licenses or registration fees, which can encourage bribery. Samir Radwan, the former finance minister underlined this by commenting:

*“The main areas of corruption are in getting licenses and permits, and of course land and land sales. We can see that very clearly in the trials taking place now – most of the trials are related to land being sold at very low prices and then resold for extremely high prices. Granting licenses to produce cement, iron and steel is how you can support monopolies, and this was a big issue related to corruption in Egypt.”*

### 3.6. Paying public officials

It is widely assumed that poorly-paid government officials are vulnerable to bribe taking. Petty corruption seems to be ubiquitous though under different name from, a bribe to a facilitation fee. Shereen Zaky, lawyer at Shalakany Law Office, underlined the problem of assessing this accurately:

*“I would speculate that people who file government papers usually have to pay small bribes to get them filed. This is usually the case with any interaction with government bureaucracy. But I don't know if there are any statistics on bribery. Evidence on low-level corruption is mainly anecdotal”.*

Interestingly Ahmed Ghoneim, professor of economics at Cairo University, observed that

*“Petty corruption is still there and not changed. People call it different names, a bribe, facilitation. It became entrenched in the system due to bureaucracy and red tape measures. It is not a matter of paying it to get something extra, but to have your basic rights and get work done. This has to do with many issues, such as lack of accountability and low pay. There is an inability to deal with the service provider so that the service receiver is able to assess the performance of the public service provided.”*

Supporting this observation, Magda Kandil, Executive Director at the Egyptian Centre for Economic Studies, said:

*“Yes, it's very widely perceived and I can confirm it from personal experience in dealing with government offices. Sometimes you have to resort to some type of bribe or tip just to make sure your procedure is being facilitated efficiently and swiftly.”*

A number of interviewees made the point that there are no binding constraints or deterrent measures stipulated that can deter government employees and officials from collecting and accepting bribes, should they be offered and it can be attractive for a public official to offer

quality of services contingent on some type payment. A specific area of concern that was flagged by Magda Kandil was the tax system:

*“The tax collection system provides a leeway for personal judgement, and it needs reforming to give the tax collector an incentive for staying away from bribes. Corruption is the only way to explain why the tax revenue relative to the base in Egypt is very low compared to competitors. I would like to have concrete evidence on this though.”*

Samir Radwan, reiterated that:

*“It is not anecdotal, but has become so well-established, you cannot get any services without paying a bribe. Transparency International two years ago made an analysis of this point; low pay of government officials is one of the reasons for legalised corruption in the whole system.”*

The giving of gifts is also experienced by business across a number of fronts, with seven per cent of companies recording a request for payment from an official<sup>25</sup>.

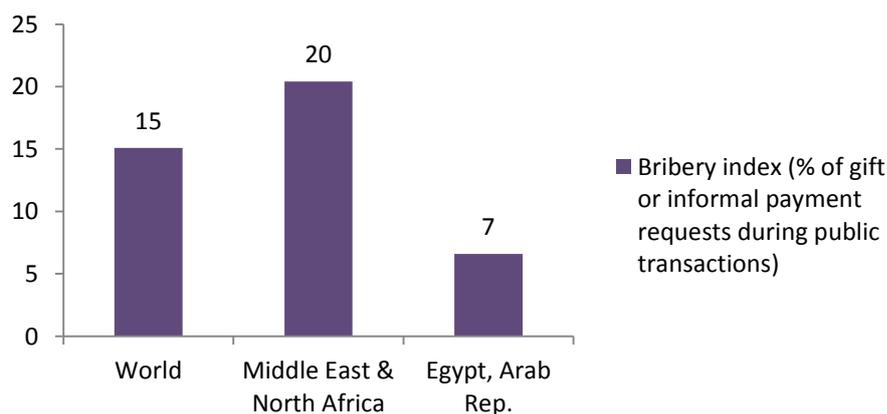


Figure 3 – Percentage of gift or informal payment requests during public transactions. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

### 3.7. Family and clan-centred social structures

Family based structures, when combined with a tradition of nepotism/favouritism being seen as acceptable are often held to facilitate corruption. In the public administration family connections often seem to be the way to get hired for jobs, though such connections also extend into other forms of activity such as raising bank loans. Magda Kandil, Executive Director at the Egyptian Centre for Economic Studies, said:

*“This is quite significant, and part of what happened before the revolution. There is evidence of lending, especially in banking, to those who are connected to the system. In government offices, a lot of influence is being exercised by those who have some*

<sup>25</sup> Enterprise Surveys, 2008. *Egypt, Arab Rep.*

*leeway and know how to play the system. If it's not money, it has to do with nepotism. The scheme of hiring is related to relative-based hiring and family-based hiring goes on in many government entities".*

Samir Radman said:

*"Nepotism is extremely wide-spread and established" while Abdelfattah El-Gibaly said "In high-level, ministerial positions family connections are important, but in low to mid-level ones it is more about personal connections."*

Others made the point that these structures work in two ways. On the one hand it constitutes a form of non-merit favouritism - to the extent that many believe it is difficult to get a job, however well qualified unless you have the family connections. On the other hand, the family is a strong institution and provides social security where the state and market fail to provide. Senior managers feel a familial responsibility for their staff and are reluctant to dismiss them.

## 4. How openness can help

As can be seen from the section of this paper dealing with legal provisions, Egypt has considerable anti-corruption provisions in the criminal code, and anti-corruption and audit institutions but like elsewhere the laws they are rarely enforced and the institutions starved of information and power. Part of the solution is to implement the rule of law, which is difficult, but would be greatly assisted by greater transparency and accountability in government finances, the separation of powers and other democratic reform. Osama Farid argued:

*“If we have transparency and freedom of information, this will help in surrendering corrupt attitudes.”*

Abdelfattah El-Gibaly said:

*“Transparency, especially of public expenditure and state budget and how the people can control or observe the expenditure in local administration, is needed. Also, an access to information law is needed and how to deal with conflict of interest. The annual report of the Central Accounting Organisation should be published.”*

Ghada Moussa highlighted the importance of having accurate data available:

*“If you announce data and information from reliable sources you can discuss policies, and go beyond whether data is valid or not. There is no accurate data in Egypt at the moment.”*

However, the former finance minister Samir Radwan cautioned:

*“Greater openness is good, but it’s not the whole story. Corruption is legalised. We need to find the loopholes in the law that enables people to get away with corruption. You can’t block it 100 per cent, even in Europe and US is still there but at least not to that extent. Not a single person has been indicted in Egypt, because of the legalised type of corruption.”*

Magda Kandil argued that transparency underpinned freedom of expression and open debate:

*“Going forward we can say whatever we want to say, but unless people are making decisions transparently, it will be difficult to contain the problem.”*

Some observers were sceptical about how easy it would be to secure real openness. Ahmed Ghoneim, professor of economics at Cairo University, said:

*“Passing the Freedom of Information law has been on the agenda for a while. [Former Investment minister] Mahmoud Mohieldin was trying to pass this law and then stopped. It needs a strong political will, which the SCAF [Supreme Council of the*

*Armed Forces] and MB [Muslim Brotherhood] don't have, they have their own agenda."*

Others felt that the Muslim Brotherhood would be open to a freedom of information law and that it was necessary to engage with them to explain the benefits such a law would bring. Louis Brandeis, a famous judge on the US Supreme Court wrote that "sunlight is said to be the best of disinfectants" in a 1913 *Harper's Weekly* article, entitled "*What Publicity Can Do*". What kind of sunlight do we need?

Openness can best be understood as relying upon a series of supporting "pillars". There are four key elements to this:

- An enforceable and effective right to freedom of information
- Regular and open publication of information
- Effective audit and regulation bodies with real independence
- Active and engaged civil society and media capable of challenging corruption.

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*An enforceable and effective right to freedom of information* is vital because it establishes the primacy of the citizen in accessing information. The broad assumption that lies behind a freedom of information law is that information belongs to the people of a country and governments hold that information in trust on their behalf. A right to information law introduces a presumption of openness – an assumption that all information should be in the public domain as opposed to the characteristic of many societies that all information is secret.

The least corrupt societies tend to be the ones with the longest history of openness and having right to information laws, a good example being Sweden which introduced a form of right to information law in 1776. In the developing world the Indian Right to Information Law of 2005 is interesting as it is perceived to have had a major effect on corruption. This Act is now being used by ordinary citizens to tackle corruption and gives the public the power to challenge all levels of government. Indian social activist, Aruna Roy, describes the right to information law as 'the most fundamental law this country has seen as it can be used from the local *panchayat* (a unit of local government) to parliament, from a nondescript village to posh Delhi, and from ration shops to the 2G scam.' In the Act's first two and a half years, two million information requests were filed across India for a variety of reasons ranging from direct attempts to expose corruption through to allegations of resource misuse. A feature of the Indian law, is that sanctions are applied to public officials who refuse information requests unreasonably, a measure brought in because of the historic secrecy of the Indian bureaucracy, something that many observers who were interviewed believe is a characteristic of the Egyptian bureaucracy.

This has had the interesting effect of making the right to information law as powerful a tool as bribery. A controlled experiment in Delhi by the National Campaign for People's Right to Information<sup>26</sup> (NCPRI) examined the attempts of poor people to apply for ration cards. One group offered a bribe to the public officials in exchange for a card, and the second group applied and filed a freedom of information request. A third group simply applied. While the third group received little response, ration card applicants who filed information requests following up on their application forms were almost as successful as those who paid upfront bribes. What is more, they were treated on a par with middle class citizens, something that bribery could not affect. The NCPRI believe that for many, particularly India's poor and disadvantaged, the simple act of filing a right to information request is empowering and often leads to tangible results.

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*Regular and consistent reporting of information* is a second element. Most people will not have the time to request specific pieces of information or will even know what information the government holds on its behalf. A right to information law guarantees a reactive right for people to ask public officials for information about what they are doing and any documents they hold and the right to receive an answer. This needs to be balanced by a positive obligation upon public bodies to provide, to publish and to disseminate information about their main activities, budgets and policies so that the public can know what they are doing, can participate in public affairs, and challenge corruption<sup>27</sup>. A benefit of proactive disclosure in countries such as Egypt as moves towards democracy is that many of the vulnerable sections of society will be fearful of making information requests but if the information is available publically they can access it anonymously. Proactive disclosure also requires good information systems – something that many have identified as a significant weakness in Egypt. And by making information available freely, it reduces the burden on public administration of having to process requests for information that may be filed under a right to information law. This also has the effect of encouraging more regular reporting of government information, including accounts, contracts and subsidies. Making this data available in machine readable format will also enable others to present data more accessibly. From this point it is then easier to build an open data platform such as that of Kenya, which allows people to access information in the form they want.

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<sup>26</sup> National Campaign for People's Right to Information, *Right to Information*, [online] <http://righttoinformation.info/rti/>

<sup>27</sup> Darbshire, H., 2010. *Proactive Transparency, The future of the right to information? A review of standards, challenges, and opportunities*, Washington, World Bank Institute

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*Effective audit and regulation bodies with real independence* are vital. As the current experience in Egypt shows, laws and regulations are meaningless unless they are enforced. This will mean overhauling the existing State oversight institutions and if necessary creating new institutions – rooted in the new parliament, a reformed judiciary and with a revamped anticorruption agency. It will also involve improved accounting practices – publishing accurate accounts which are then open for scrutiny and debate. It will also involve timely financial management and regular reporting.

This will involve a significant investment in improving the professionalism of the Egyptian public administration but the benefits will be felt way beyond greater transparency and effective anti—corruption measures. These steps should improve the quality of public administration as a whole.

Finally there should regular and consistent attempts to measure corruption. Currently, much of the evidence is anecdotal and often assumptions about the extent of corruption are likely to be exaggerated. For example, regular surveys could be conducted of households and businesses in order to quantify the degree of perception of corruption in different parts of a nation or in different government institutions may increase awareness of corruption and create pressure to combat it. This will also enable an evaluation of the officials who are fighting corruption and the methods used.

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Finally, *an active and engaged civil society and media* capable of challenging corruption is the final underpinning of a effective system for combating corruption. There are different elements to this. Investigative reporting in the local media (or even the threat of investigative reporting) is crucial in opening up large scale corruption. This creates disincentives for those engaged in corruption by threatening them with exposure. In turn this assumes that there is an independent media sufficiently robust to stand up to government or private intimidation. This requires strong support for freedom of speech to enable people to speak out and expose those engaged in corrupt practices. Civil society groups are also essential. In many countries civil society<sup>28</sup> has played a crucial role in underpinning greater openness as experts, innovators, mobilisers of public pressure, and sources of advice and support.

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<sup>28</sup> <http://siteresources.worldbank.org/EXTGOVACC/Resources/atICivSocietyFinalWeb.pdf>

## 5. Conclusion

Notwithstanding the lack of accurate data it is possible to say that corruption is a significant problem in Egypt. The following chart illustrates the percentage of firms identifying corruption as a major constraint on their operations. While it is less of a problem than elsewhere in the region, the problem in Egypt is higher than the rest of the world and is a long way short of the best practice in the more developed countries.

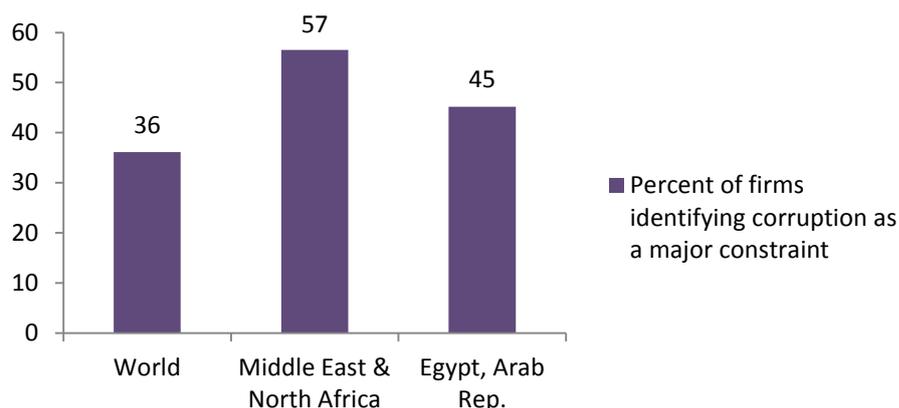


Figure 2 – Percentage of firms identifying corruption as a major constraint. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

However it is clear that greater transparency and openness, on its own will not prevent corruption if other democratic mechanisms such as an independent media, and active civil society, state institutions that operate accountably and free and fair elections are present.

There is some evidence that real transparency and openness require institutions external to the state to be truly effective. One important implication of these findings is that reforms focusing on increasing transparency should be accompanied by measures for strengthening citizens' capacity to act upon the available information if we are to see positive effects on corruption<sup>29</sup>.

An effective anti-corruption regime will therefore require a range of institutional reforms. In the field of public administration it will require changes to financial management and procurement procedures and it will also require administrative and civil service reform. It will necessitate string civil society organisations and an independent media. This will require the current uncertainty about the status of civil society groups and particularly those in receipt of foreign funding to be resolved. It will require an effective right to information and fostering effective "user" participation in any such information system.

<sup>29</sup> Lindstedt, C. & D. Naurin, 2008. *Transparency Against Corruption*. University of Gotenburg, [online] [http://www.qog.pol.gu.se/digitalAssets/1358/1358046\\_transparency-against-corruption-\\_accepted-version\\_.pdf](http://www.qog.pol.gu.se/digitalAssets/1358/1358046_transparency-against-corruption-_accepted-version_.pdf)

There will need to be an overhaul of the oversight institutions, including parliament, the judiciary and the anticorruption agencies. The recent elections in Egypt offer a significant opportunity as there is a new parliament, elected through a process that has broadly free and fair and which has resulted in a new cohort of elected representatives who will be looking for a role. These representatives can be encouraged to promote transparency and anti-corruption.

Finally, there is a need to address questions of service delivery. If transparency, participation and accountability are promoted in the field of service provision for example, health, education, transport, and planning, there will be considerable benefits to Egyptian society. This, in turn, will require reforms to the systems for gathering and processing data. Currently the state statistical service, CAPMAS, has a monopoly on the gathering of information and CAPMAS regulations require a government, public or private sector body to request its written approval prior to carrying out any survey. Data gathered by CAPMAS is not consistently and comprehensively made available and its accuracy is often questioned. There's a need to reform and liberate the process of information gathering and processing in Egypt to make CAPMAS more transparent and independently accountable (perhaps to the new parliament) and to allow more systematic and independent research and information gathering.

These reforms, taken together are a formidable challenge but it is one that Egypt will have to confront if it is to tackle the deep and systematic economic and social problems it faces, which corruption encapsulates.

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## 7. Appendix I: List of interviewees

Interviews conducted by Nadine Marroushi between 5<sup>th</sup> – 15<sup>th</sup> March 2012

1. Ghada Moussa, Secretary General of the Transparency and Integrity Committee
2. Ahmed Ghoneim, Professor of Economics at Cairo University
3. Samir Radwan, a former finance minister
4. Osama Farid, Chief Executive at the Project Engineering Company
5. Abdelfattah El-Gibaly, Head of the Economic Unit at the Ahram Centre for Political and Strategic Studies
6. Shereen Zaky, lawyer at Shalakany Law Office
7. Magda Kandil, Executive Director at the Egyptian Centre for Economic Studies